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UNCLAS SECTION 1 OF 2 USNATO 0916

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TAGS: AORG NATO OECD

SUBJECT: COORDINATED ORGANIZATIONS PENSION SCHEME FOR NATO
AND OECD

REFS: (A) OECD PARIS 04926

(B) OECD PARIS 04656

(C) USNATO 0858

(D) 75 CCG/W(75)13

SUMMARY: POSITION OF SYGS ON PENSION SCHEME (PROBLEM OF
CREDITING PAST SERVICE) CONTAINS CERTAIN WEAKNESSES AND IN-
ACCURACIES. INSTRUCTIONS REQUESTED PARA 10. END SUMMARY.

1. THERE FOLLOWS COMMENTS ON THE COMMON POSITION OF
SECRETARIES GENERAL ON THE PENSION SCHEME TO BE PRESENTED AT OECD
COUNCIL FEBRUARY 26 (REF B).

2. WITH PARTICULAR REFERENCE TO THE PROBLEM OF DETERMINING THE
COST OF PURCHASING CREDIT FOR PAST SERVICE, THE POSITION PAPER
USES EMOTIONAL PHRASEOLOGY AND MISREPRESENTS SEVERAL
IMPORTANT POINTS.

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3. PARAGRAPH 5 DESCRIBES THE OUTSTANDING RESERVATIONS
APPEARING IN THE 127TH REPORT AS "AN ATTACK ON THE ACTUAL
BASIS OF THE PENSION SCHEME, DISTORTING ITS INTENTIONS AND SER-

IOUSLY UNBALANCING IT," LANGUAGE WHICH WE BELIEVE TILTS TOO FAR.

4. PARAGRAPH 6 PICTURES THE MINORITY DELEGATIONS AS RENEGING ON SOMETHING ALREADY GRANTED, WHEREAS CCG DISCUSSIONS ALWAYS ANTICIPATED THAT DETAILED INTERPRETATIONS OF THE DECISIONS OF THE COUNCILS ON THE PENSION SCHEME WOULD BE NECESSARY, PARTICULARLY AS REGARDS PARAGRAPH 27 OF THE 94TH REPORT. THE STATEMENT THAT "PROVISIONS HAD ALREADY BEGUN TO BE IMPLEMENTED IN SOME ORGANIZATIONS" APPARENTLY REFERS INTER ALIA TO THE USE OF LOCAL CURRENCIES AS A BASIS FOR CALCULATING COST OF VALIDATION OF PAST SERVICE. (THE MINORITY POSITION FAVORS THE USE OF A COMMON CURRENCY OR UNIT OF ACCOUNT RATHER THAN LOCAL CURRENCIES FOR THIS PURPOSE). IN FACT, THE OECD FIRST BEGAN TO CALCULATE THESE COSTS ON THE BASIS OF A COMMON CURRENCY, THE FRENCH FRANC. HOWEVER, THEY BEGAN AGAIN, SEVERAL MONTHS LATER, MAKING NEW CALCULATIONS FOLLOWING THE INTER-RETATION OF THE SECRETARIES GENERAL THAT IT WAS ONLY POSSIBLE TO USE LOCAL CURRENCIES AS THE BASIS.

5. UNDER THE KEY SECTION ON PURCHASING CREDIT FOR PAST SERVICE, PARAGRAPH 5 CITES A CRITERION:

"...THE COST OF BENEFITS UNDER THE PENSION SCHEME SHOULD BE UNIFORM FOR ALL STATES OF THE COORDINATED ORGANIZATIONS".

THIS IMPLIES THAT THE SYG FORMULA MOST NEARLY MEETS THIS CRITERION, A DEBATABLE POINT.

6. PARAGRAPH 6 REFERS TO THE WIDELY VARYING YIELDS OF THE PROVIDENT FUNDS IN DIFFERENT ORGANIZATIONS. THE SECRETARIAT HAS NEVER PRESENTED ANY WRITTEN ANALYSIS OR COMPARISON OF FUND YIELDS; IT IS BECOMING EVIDENT THAT THE PRINCIPAL CAUSE FOR THE APPARENT VARIATION IN YIELD IS THE VARIATION IN THE UNITS OF ACCOUNT IN WHICH SUCH YIELDS ARE EXPRESSED. THE OECD PROVIDENT FUND HAS SHOWN LARGER YIELDS THAN THE NATO PROVIDENT FUND; OECD PROVIDENT FUND ACCOUNTS ARE UNCLASSIFIED UNCLASSIFIED

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KEPT IN FRENCH FRANCS, NATO PROVIDENT FUND ACCOUNTS ARE KEPT IN ACCOUNTING UNITS (AUS) AND THE FRENCH FRANC HAS BEEN DEPRECIATING AGAINST THE AU. IF ACCOUNTS OF BOTH FUNDS WERE EXPRESSED IN AUS, THE DIFFERENCE IN YIELDS WOULD BE LESS SIGNIFICANT.

7. PARAGRAPH 6 ALSO STATES THAT PARAGRAPH 27 OF THE 94TH REPORT CAN BE IMPLEMENTED ONLY BY CALCULATING VALIDATION COST IN LOCAL CURRENCIES IN NOMINAL TERMS. THIS IS INCORRECT; THE COST COULD EQUALLY WELL BE CALCULATED IN AUS, AS NOTED IN PARAGRAPH 9 OF THE POSITION PAPER.

8. PARAGRAPH 9 HOWEVER ALSO STATES THAT THE USE OF THE AU FOR THE CALCULATIONS WOULD EQUATE TO THE RETROACTIVE INTRODUCTION INTO THE PROVIDENT FUNDS OF AN EXCHANGE RATE GUARANTEE. THIS IS INCORRECT; THE AU WOULD NOT BE INTRODUCED INTO THE PROVIDENT FUND; IT WOULD APPLY TO THE CALCULATION OF THE VALUE OF THE CONTRIBUTIONS, AS INDICATED IN A DOCUMENT ORIGINATED WITHIN NATO ITSELF (CCG/W(7513) (REF D).

9. PARAGRAPHS 9 AND 10 ARE INCORRECT AND UNRELATED TO THE PROBLEM OF CALCULATING COST OF VALIDATION; PROVIDENT FUND ASSETS CAN BE AND ARE PROTECTED AGAINST CURRENCY DEPRECIATIONS BY INVESTMENT IN SECURITIES TIED TO THE DESIRED STANDARD CURRENCY. LEGAL CIRCLES AT NATO VIEW A GREATER LIKELIHOOD OF APPEALS RESULTING FROM THE SYG FORMULA THAN FROM THE MINORITY FORMULA BECAUSE OF INEQUITABLE TREATMENT OF STAFF IN DIFFERENT COUNTRIES. (PARAGRAPH 11).

10. UNLESS THE DEPARTMENT DECIDES THE US SHOULD CHANGE ITS POSITION (IN WHICH CASE SEE PARA 6, REF C) THE US REPRESENTATIVE AT THE OECD COUNCIL MEETING FEBRUARY 26 MAY WISH TO MAKE A STATEMENT IN SUPPORT OF THE MINORITY POSITION ALONG THE FOLLOWING LINES:

A. AS THE REPRESENTATIVES OF THE SECRETARIES GENERAL HAVE TESTIFIED IN COMMITTEE, THE STAFF WOULD HAVE ACCEPTED VALIDATION COST EQUAL TO FULL PROVIDENT FUND HOLDINGS IF THIS HAD BEEN REQUESTED FROM THE BEGINNING.

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B. THE MINORITY FORMULA IS MORE EQUITABLE THAN THAT OF THE SYGS; THAT IS TO SAY, IT WOULD LEAVE EMPLOYEES WITH A MODEST

RESIDUE AFTER VALIDATION REGARDLESS OF COUNTRY OF SERVICE OF CURRENCY OF SALARY, WHEREAS THE SYG FORMULA WOULD LEAVE LARGE RESIDUES TO SOME, AND NO RESIDUE AT ALL TO OTHERS SERVING IN DIFFERENT COUNTRIES BUT WITH OTHERWISE IDENTICAL CAREERS.

C. THE MINORITY FORMULA IF BASED ON THE ACCOUNTING UNIT WOULD BE AS SIMPLE TO APPLY AS THE SYG FORMULA.

D. THE MINORITY FORMULA WOULD BE FINANCIALLY MORE FAVORABLE TO GOVERNMENTS AS IT WOULD REDUCE THE LARGE RESIDUES WHICH THE OTHER FORMULA WOULD LEAVE TO CERTAIN EMPLOYEES.

E. IT CANNOT BE MAINTAINED THAT THE ONLY POSSIBLE INTERPRETATION REQUIRES THE USE OF LOCAL CURRENCIES AS THE BASIS FOR CALCULATING VALIDATION COSTS, FOR THE OECD ITSELF FIRST BEGAN TO CALCULATE VALIDATION COSTS OF OECD EMPLOYEES IN FRENCH FRANCS REGARDLESS OF COUNTRY OF SERVICE (E.G., IN THE UNITED STATES), UNTIL ADVISED THAT THEY SHOULD CHANGE THIS BASIS TO MAINTAIN CONSISTENCY WITH THE OFFICIAL POSITION OF THE SECRETARIES GENERAL.

F. THE US SUPPORTS THE BELGIAN VIEW, IN PRINCIPLE, THAT THIS PENSION SCHEME IS VERY FAVORABLE TO STAFF MEMBERS AND THAT IT CONTAINS SEVERAL BENEFITS WHICH WERE NOT INITIALLY UNCLASSIFIED UNCLASSIFIED

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CONTEMPLATED BY ALL DELEGATIONS. WE DO NOT FEEL THAT THERE IS JUSTIFICATION FOR THE VALIDATION FORMULA OF THE SECRETARIES GENERAL, WHICH WOULD LEAVE LARGE RESIDUES VERY UNEVENLY DISTRIBUTED AMONG EMPLOYEES OPTING TO JOIN THE PENSION SCHEME.

1. COMMENTING ON OECD PARIS 04926 (REF A, JUST RECEIVED) WE REFER TO USNATO 858 FOR CLEAR DEFINITION OF " REAL TERMS CONCEPT," I.E., USE OF INTERNATIONAL ACCOUNTING UNIT AS BASE FOR CALCULATING VALIDATIONS. WE HAVE NO SOLUTION FOR LEGAL ARGUMENT WHICH APPEARS TO BE MATTER OF LEGAL OPINION ON WHICH LEGAL COUNSEL AT OECD HOLDS DIFFERENT VIEW THAN THAT HELD BY LEGAL CIRCLES AT NATO AND DEPARTMENT. FRENCH ARGUMENT THAT MINORITY POSITION IS " ATTEMPT TO ROB EMPLOYEES OF THEIR LEGAL PROPERTY" SEEMS TO OVERLOOK FACT THAT EMPLOYEES HAVE OPTION OF JOINING PENSION SCHEME OR STAYING WITH OLD PROVIDENT FUND SYSTEM, AND FACT THAT SYG REPS TO CCG HAVE STATED THAT EMPLOYEES WOULD HAVE AGREED TO THE SURRENDER OF FULL PROVIDENT FUND HOLDINGS AS COST OF VALIDATION FOR JOINING PENSION SCHEME IF THIS HAD BEEN THE POSITION OF THE GOVERNMENTS FROM THE BEGINNING. INTRODUCTION OF ARGUMENT BASED ON EXCHANGE GUARANTEE QUESTION SEEMS TO US A RED HERRING UNRELATED TO VALIDATION ISSUE.

12. REPS OF FRG, BELGIUM, AND ON A PERSONAL BASIS CANADA, AGREE WITH ALL SUBSTANTIVE POINTS MADE ABOVE.

13. BELGIUM ALSO PLANS TO DISTRIBUTE AIDE MEMOIRE FOR MEETING FEBRUARY 26 ASKING OECD COUNCIL MEMBERS TO CONSIDER THE FACT

THAT PENSION SCHEME NOW CONTAINS SEVERAL BENEFITS BEYOND THOSE
INITIALLY CONCEIVED. AIDE MEMOIRE WOULD ASK OECD COUNCIL
MEMBERS TO TREAT FEBRUARY 26 MEETING AS INITIAL
SESSION ON THIS SUBJECT, ALLOWING THEM TIME TO CONSIDER AND
RESPOND TO THE POINTS MADE BY BLEGIUM, NAMELY WHETHER THE TOTAL
LEVEL OF BENEFITS MAY NOW BE EXCESSIVE, AND IN PARTICULAR
THE FORMULA FOR VALIDATION OF PAST SERVICE. STREATOR

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